PROPERTY REVIEW
PORTFOLIO MANAGEMENT

Our mid-market offices in the West End and City borders continue to prove attractive to tenants, as evidenced by another excellent year for lettings in 2012.

Paul Williams
Executive Director

Letting activity

We let 340,300 sq ft (31,610m²) at an annual rent of £13.3m and an average premium of 7.6% to the December 2011 ERV. For comparison, in 2011, when we had more space available, we concluded 495,700 sq ft (46,050m²) of lettings at an annual rent of £16.7m.

Excluding short-term lettings where we want to retain flexibility for future projects, and which constituted 8% by income and 11% by floorspace, open market lettings were at an average premium of 9.2% to the December 2011 ERV.

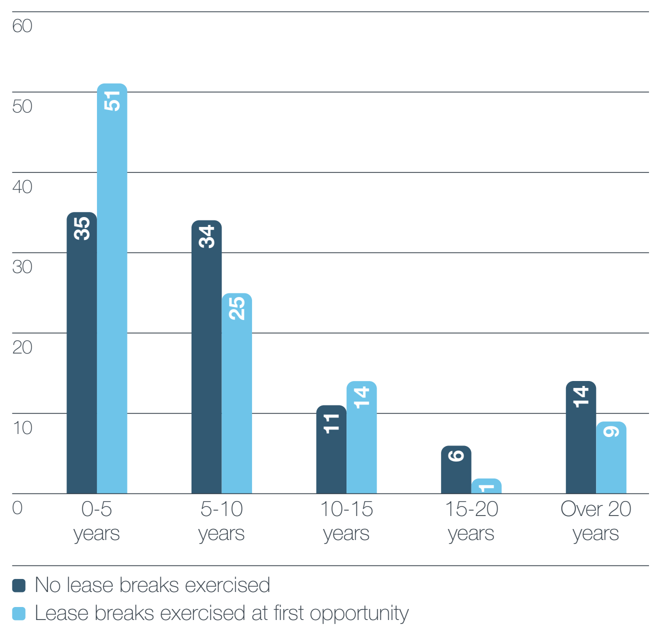
Annual income from lettings in the first half of the year totalled £8.9m, and £4.4m in the second half. Overall lettings in the second half were settled at an average premium of 10.3% to the June 2012 ERV and for open market lettings at a 12.3% premium. On the basis of our most recent activity and ongoing tenant interest we see no slowdown in the rental market for our properties.

During 2012 we maintained a low vacancy rate, and 55% of our transactions by income were pre-lets, including most of our large transactions: Burberry at 1 Page Street SW1, Unilever at Buckley Building EC1 and BrandOpus at 1 Stephen Street W1. We also saw, and continue to see, strong interest in our available space from the TMT sector with 27% of our lettings in 2012 from this sector and 68% if wider creative industries are included.

The principal transactions in 2012 were as follows:

- **1 Page Street SW1** This 127,000 sq ft (11,800m²) building was pre-let to Burberry for 20 years with a break in year ten at a rent of £5.3m pa, rising to a minimum of £5.7m pa after five years. The initial rent equates to £50 per sq ft (£540 per m²) on the best space, which compares with £38 per sq ft (£410 per m²) on similar space that Burberry currently occupies in our adjacent 162,700 sq ft (15,110m²) Horseferry House.

Profile of rental income expiry[1] %



[1] Based upon annualised net contracted rental income of £119.6m

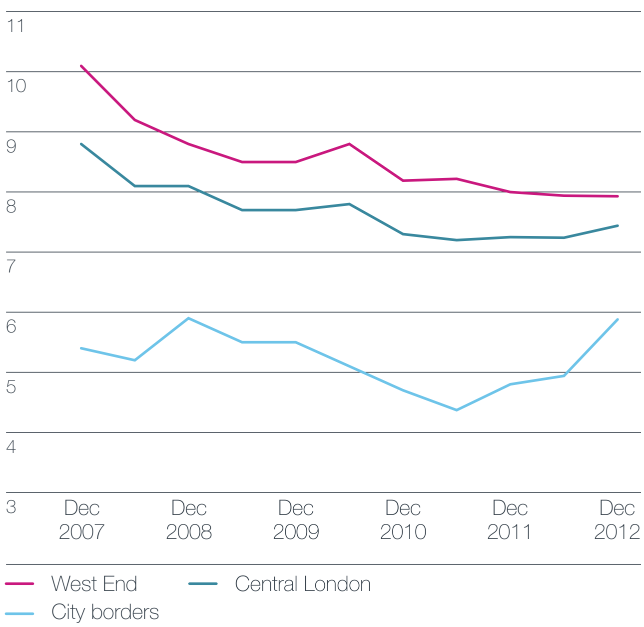
340,300 sq ft
of lettings at

£13.3m pa

Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		119.6
Contractual rental increases across the portfolio	21.0	
Letting 6,200m² available floor area	2.1	
Completion and letting 60,400m² of project floor area	19.0	
Anticipated rent review and lease renewal reversions	13.3	
Portfolio reversion		55.4
Potential portfolio rental value		175.0

Average unexpired lease length[1] Years



[1] Lease length weighted by rental income and assuming tenants break at first opportunity

Lettings

7.6%

above December 2011 ERV

- **4 & 10 Pentonville Road N1** Within two months of practical completion, 47,700 sq ft (4,430m²) of this 55,000 sq ft (5,110m²) building was let for 12 years to Ticketmaster at £45 per sq ft (£484 per m²) on the top floor and £42.50 per sq ft (£457 per m²) on a typical mid-level floor, giving a total rent of £1.9m pa. The completion of this development, opposite our Angel Building where rents of £42 per sq ft (£452 per m²) were achieved in 2011, continues the regeneration of this increasingly vibrant part of Islington.
- **Buckley Building EC1** Unilever has pre-let 21,100 sq ft (1,960m²) of office space paying £45 per sq ft (£484 per m²) on the ground floor and £40 per sq ft (£431 per m²) on the lower ground to give a total rent of £0.9m pa, 27% above the 30 June 2012 ERV of this space. The lease is for 12 years with a tenant's break at year six on payment of a 12 month rent penalty. A rent free period equivalent to 12 months was granted, with an additional six months if the break is not exercised.

  We are formally launching the marketing of the remaining 64,000 sq ft (5,900 m²) in this building in April 2013, following completion of the project.
- **1-2 Stephen Street W1** BrandOpus is more than tripling its occupation in our portfolio and will relocate to 18,300 sq ft (1,700m²) in Phase 1 of the 1-2 Stephen Street refurbishment from 5,000 sq ft (460m²) at the nearby Charlotte Building W1. It took 15,400 sq ft (1,430m²) in 2012 and an additional 2,900 sq ft (270m²) in February 2013. It will occupy ground and lower ground floor offices under a 10-year lease, paying a rent of £0.8m pa, representing £52.50 per sq ft (£565 per m²) on the prime space.
- **Johnson Building EC1** Existing media tenant Grey took an additional 11,100 sq ft (1,030m²) on a nine-year lease at £45 per sq ft (£485 per m²) or £0.50m pa, taking its total presence in the building to 61,100 sq ft (5,680m²).

PROPERTY REVIEW PORTFOLIO MANAGEMENT CONTINUED

We maintain the appeal of the space that we offer by anticipating and reflecting the evolving needs of occupiers. Many tenants now tend to occupy their space in a more open-plan way than in a traditional office design, with informal meeting spaces and coffee bars worked into the fit-out. In May 2012, a Derwent London team visited San Francisco and Silicon Valley to meet tenants who may look to expand into the UK as well as to see the occupational requirements of creative industries there. By following and understanding such trends, we are able to create tomorrow's space today and we were pleased to see three Derwent London tenants (Innocent Drinks, Mind Candy and Mother) featured in the Daily Telegraph's list of "Top 10 coolest offices in UK".

Asset management

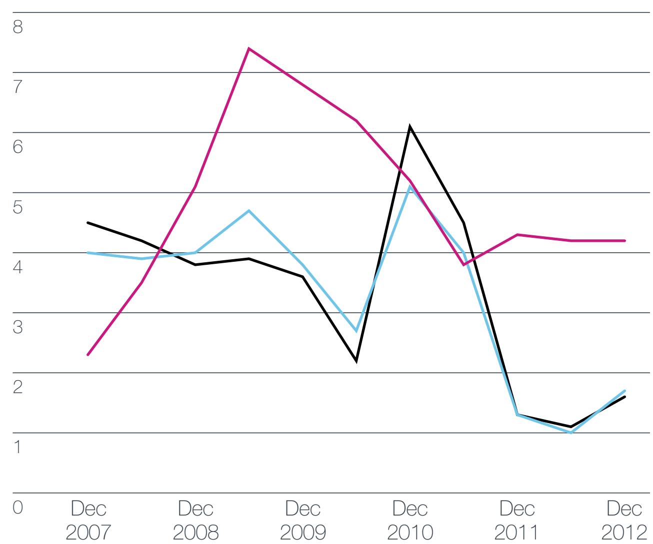
We continued to see strong tenant retention in 2012. During the year £14.7m pa of rental income was subject to lease expiries and breaks. After excluding space taken back for identified projects and disposals, representing £4.2m pa, 81% of this income was retained and 5% re-let during 2012.

The Group concluded 65 rent reviews, lease renewals and regears in the year on 580,000 sq ft (53,900m²) at a combined rent of over £21m pa, at an uplift of 7.7% on the previous income.

In several cases these asset management initiatives built in longer leases and/or future rental uplifts, underpinning certainty of income for Derwent London. The most significant of these were:

- **1 Oliver's Yard EC2**
  Sage Publications Four leases covering 40,300 sq ft (3,740m²) were extended from two to seven years. Annual stepped rental increases were introduced, taking the rent from £1.0m pa to £1.4m pa over the term, equating to between £25 per sq ft (£270 per m²) and £36 per sq ft (£390 per m²) and comparing favourably with a December 2011 ERV of £28.50 per sq ft (£305 per m²). Lease incentives equated to a four month rent free period.
  TelecityGroup Leases on 68,700 sq ft (6,380m²) were extended from five to 25 years, with rent increases from £1.8m pa in 2012 to £2.3m pa in 2017 which equates to £45 per sq ft (£485 per m²) on the best space. Thereafter the rent increases by 2.5% pa compounded every five years. Lease incentives equated to a 12 month rent free period.
- **8 Fitzroy Street W1**
  This 148,000 sq ft (13,750m²) building is let to Arup until 2033. We replaced five-yearly upward-only rent reviews with an annual stepped increase taking the rent from £6.2m pa (£45 per sq ft/ £485 per m² on a typical floor) to £8.4m pa (£60 per sq ft/ £645 per m²) in 2021. There is then an upward-only, open-market rent review with the income increasing 2.5% pa thereafter.

Five-year vacancy trend %



Derwent London (by rental value)
Derwent London (by floor area)
CBRE West End offices (by floor area)

81%

of income subject to breaks and expires retained

Portfolio statistics – rental income

	Net contracted rental income per annum £m	Average rental income £ per m²	Vacant space rental value per annum £m	Rent review and lease reversions per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length[1] Years
West End						
Central	76.5	314	7.9	22.6	107.0	7.8
Borders	11.1	214	0.2	5.8	17.1	9.2
	87.6	297	8.1	28.4	124.1	7.9
City						
Borders	27.8	249	12.8	5.4	46.0	5.9
Central London	115.4	284	20.9	33.8	170.1	7.4
Provincial	4.2	144	0.2	0.5	4.9	6.4
Total portfolio 2012	**119.6**	**274**	**21.1**	**34.3**	**175.0**	**7.4**
2011	113.1	264	20.6	26.7	160.4	7.2

[1] Lease length weighted by rental income and assuming tenants break at first opportunity

Reversionary potential
There remains a wide variety of additional opportunities for asset management initiatives. Our central London average passing office rent remains modest at £26.04 per sq ft (£280 per m²) and offers an excellent platform for income growth. Allowing for contracted increases, the average "topped-up" rent is £31.18 per sq ft (£336 per m²). This compares with an ERV as at 31 December 2012 of £35.64 per sq ft (£384 per m²).

Rent collection
Rent collection remains prompt, with 97% of rent collected on average within 14 days of the due date for the year and 98% for the fourth quarter.

Vacancy rate
With strong tenant demand and retention, the vacancy rate in the portfolio remained low throughout 2012, even following the completion of 4 & 10 Pentonville Road N1. At the end of December 2012 the vacancy rate was 1.6% on an EPRA basis by rental value, measured as space immediately available for occupation, or £2.1m pa (31 December 2011: 1.3% or £1.9m pa). Since the year end half of this has either been let or is under offer. By available floorspace, the year end vacancy rate was 1.7% (31 December 2011: 1.3%). This compares favourably with the CBRE central London rate that stood at 5.3% at the end of 2012.

Our six projects where we are on site have an estimated net rental value of about £22m pa and upon completion, after adjusting for pre-lets, would increase the Group's vacancy rate of available space to around 11% measured by rental value. Much of this space will not be ready for occupation until towards the end of 2014.

Activity in 2013 to date
In 2013 to date a further 241,900 sq ft (22,470m²) has been let or placed under offer generating income of £2.3m pa. This includes:

- **132-142 Hampstead Road NW1**
  The property, which under current plans is expected to be compulsorily purchased as part of the construction of HS2, is undergoing a "light touch" refurbishment. UCL (University College London) has taken a pre-let of all 217,000 sq ft (20,160m²) at a total rent of £1.6m pa with 3% pa uplifts fixed in March 2016 and September 2018. The lease is for a 10-year term with mutual rolling breaks from September 2018 and has a rent free period equivalent to 15 months. This letting bolsters net income whilst retaining flexibility for development if circumstances change.

"Derwent has proved an extremely flexible landlord during the 14 years we have been at Grosvenor Place, enabling us to take on additional space as we have grown."

Jupiter Fund Management
1-5 Grosvenor Place SW1